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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of)
Advanced Television Systems)
and Their Impact upon the)
Existing Television Broadcast)
Service)

MM Docket No. 87-268

REPLY COMMENTS OF ZENITH ELECTRONICS CORPORATION

These comments of Zenith Electronics Corporation reply to selected comments in response to the Commission's Third Report and Order/Further Notice of Proposed Rule Making ("Notice") related to the selection of a high-definition television (HDTV) system for the United States.

As a proponent (together with AT&T) in these proceedings, Zenith, of course, has an intense interest in the issues surrounding the implementation of HDTV service in the United States. Moreover, as a leading manufacturer of color television sets, color picture tubes and cable television decoders, Zenith has a particular interest in HDTV implementation issues that are directly related to consumer electronics.

Zenith's reply comments address concerns raised by the Association for Maximum Service Television, Inc. (MSTV) -- specifically whether the Commission should make HDTV receiving capability mandatory for all television receivers and whether the Commission should "periodically ... revisit the timing and implementation of adopting such requirement...." MSTV at 7.

COST BURDENS TO CONSUMERS AND OTHERS

Perhaps the most compelling arguments against mandating ATV receiving capability in all television sets center on the economic realities of the color television industry. The cost of adding HDTV receiving capability to ordinary NTSC receivers would no doubt disrupt the market to the detriment of broadcasters, television set manufacturers and viewers.

MSTV admits that the incremental cost of an NTSC receiver capable of receiving HDTV signals "seems likely to remain substantial for a considerable period of time and will, in any event, likely represent a far greater incremental cost than did the 'UHF-ready' sets of 30 years ago." MSTV at 14.

While it is difficult at this point to estimate precisely the incremental cost of receiving, demodulating and decompressing digital ATV signals in a non-HDTV receiver, Zenith's analysis of the report of the Advisory Committee's Systems Subcommittee Working Party 3 point to a retail price premium in the area of \$500 per set.

Consider the fact that, out of the 22 million-plus color television sets purchased by Americans annually, more than 70 percent of them are purchased at under \$350 each. Small-screen sets (with screen sizes 13-inch diagonal and under) account for about 25 percent of industry unit sales, and most of those sets sell for less than \$200 each. It is clear that a \$500 premium would cut millions of Americans out of the market for new television receivers. The accompanying huge reduction in

industry sales would reduce broadcasters' audiences and would create havoc for the entire consumer electronics industry -- from manufacturers and suppliers to distributors and retailers.

Clearly, it is not in the public interest -- nor the interest of broadcasters and the consumer electronics industry -- to stifle sales of NTSC receivers during the transition period. After all, broadcasters will continue to broadcast NTSC signals for many years and broadcasters will continue to compete with other NTSC program sources, including cable, videocassettes and direct broadcast satellite.

Program delivery means aside, as long as market demand exists for NTSC receivers, the consumer electronics industry should be free to continue to serve that market. Even more important, consumers should be able to continue to purchase basic NTSC receivers that meet their needs -- without being burdened with the increased costs associated with adding HDTV receiving capability to NTSC-quality receivers.

ALL-CHANNEL RECEIVER ACT

MSTV seems to be urging the Commission to invoke an approach similar to the All-Channel Receiver Act in the implementation of HDTV service. MSTV at 8. As we said in our earlier comments, Zenith agrees with statements in the Notice (Paragraph 81) that the All-Channel Receiver Act does not preclude selection of an HDTV system requiring new receivers and does not require the manufacture of dual-mode receivers. (Dual-mode receivers -- that is, full HDTV receivers with NTSC capability -- will be

MSTV attempts to draw an analogy between the Act, established more than three decades ago to level the playing field for UHF broadcasters versus VHF, and the current discussion about the launch of a significantly improved broadcasting service. The Act and its implementing regulations were intended to serve an entirely different purpose from that involved in making the transition to a superior transmission system.

A better analogy might be the launch of FM stereo, an improved broadcast service over AM (and, of course, over monophonic FM) radio. The Commission never saw the need to require all radio receivers to receive FM, and some AM-only receivers are still sold today.

Zenith believes that digital HDTV performance improvements versus NTSC -- namely snow-free, ghost-free, high-resolution TV pictures and compact-disc-quality digital stereo surround sound -- will stimulate significant sales of true HDTV receivers. These kinds of improvements simply were not a factor in the VHF-UHF situation 30 years ago.

HDTV WILL DRIVE THE MARKET

Zenith agrees with MSTV that "significant penetration of ATV receivers is essential to provide ATV broadcasters with a realistic opportunity to achieve commercial viability." MSTV at 10 and 11. MSTV's concerns are understandable, in light of the particularly pessimistic forecasts of HDTV receiver penetration cited in their comments.

For example, MSTV refers to an NTIA study which "concluded that it might take up to seven years for ATV receivers to

achieve 1 1/2 market penetration under an optimistic scenario." MSTV at 12. Also cited is a "Darby Study," which found that "it might take as long as ten years before significant numbers of consumers [begin] purchasing ATV receivers." MSTV at 10.

Zenith and many others strongly believe that true HDTV will generate significant audiences -- reaching 1 percent market penetration in just two years after introduction. Similarly, Working Party 5 of the Advisory Committee on Advanced Television Service's Planning Subcommittee concluded that, based on "conservative estimates," HDTV receivers will reach 5 percent market penetration by the fifth year after the Final Report and Order, and 37 percent by the tenth year. The Working Party's more optimistic projection is that 8 percent penetration will be reached by Year 5, and 56 percent by Year 10.

These forecasts point to a huge market for true HDTV receivers in the coming decade and significant commercial opportunities for broadcasters, without disrupting the NTSC market.

CONCLUSION

We believe that it would be a big mistake for the Commission to mandate dual-mode NTSC/HDTV receivers at any juncture in the transition period. Consumers would suffer, as would the consumer electronics industry. Consumers deserve the right to continue to purchase products that meet their needs and the consumer electronics industry should have the latitude to develop, manufacture and market those products.

Zenith appreciates this opportunity to share its views again with the Commission. As an HDTV system proponent and

active participant in many of the Advisory Committee's Working Parties, Zenith will continue to support the Commission's efforts to promote the timely introduction of HDTV service.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I, John I. Taylor, hereby certify that a true copy of the foregoing "Reply Comments of Zenith Electronics Corporation" were served this 8th day of February, 1993, by First Class U.S. Mail, postage prepaid, upon the party listed below.


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